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Net Income

Net income increased $13.3 million, to $14.6 million for the year ended December 31, 2009 from net income of $1.2 million for the year ended December 31, 2008. The increase in net income was primarily due to the increase in operating income, offset by a decrease of $0.7 million in net interest income.

Liquidity and Capital Resources

Our primary source of liquidity is our cash flows from operations. Given our current cash and cash equivalents, which consist primarily of demand deposits, highly liquid money market funds and treasury securities, and accounts receivable, we believe that we will have sufficient liquidity to fund our business and meet our contractual obligations for at least the next 12 months. We expect that the combination of our current liquidity and expected additional cash generated from operations will be sufficient for our planned capital expenditures, which are expected to consist primarily of capitalized software, and other investing activities, in the next 12 months.

Cash and cash equivalents increased by $111.9 million from $43.7 million at December 31, 2009 to $155.6 million at December 31, 2010, primarily as a result of proceeds received from our initial public offering in May 2010 and cash flows from operations. Cash and cash equivalents decreased $8.0 million, from $51.7 million at December 31, 2008 to $43.7 million at December 31, 2009, primarily due to the payment of dividends.

Our receivables could be exposed to financial risks, such as credit risk and liquidity risk. Credit risk is the risk of financial loss to us if a counterparty fails to meet its contractual obligations. Liquidity risk is the risk that we will not be able to meet our obligations as they come due. We seek to limit our exposure to credit risk through efforts to reduce our customer concentration and our quarterly assessment of customer creditworthiness, and to liquidity risk by managing our cash flows.

Operating Activities

Cash flows generated by operating activities totaled $39.5 million, $15.1 million and $32.0 million for the years ended December 31, 2008, 2009 and 2010, respectively. Our net income plus our non-cash adjustments to net income for depreciation, amortization and share-based compensation increased by $5.4 million during the year ended December 31, 2010 as compared to the year ended December 31, 2009, primarily due to the higher net services revenue and operating margin. While our net income increased by $13.3 million during the year ended December 31, 2009 as compared to the year ended December 31, 2008, cash provided by operations was lower in 2009 than 2008 due to the timing of payments from customers and to vendors. Receivables from customers increased by $4.3 million, $7.3 million and $26.4 million during the years ended December 31, 2008, 2009 and 2010, respectively, primarily due to increased net services revenue and the timing of customer payments. Non-cash adjustments for excess tax benefits were $11.9 million in the year ended December 31, 2010 due to warrant and stock option exercises. Payables increased by $15.5 million and $18.1 million for the years ended December 31, 2008 and 2010, respectively, primarily due to growth in our business and decreased by $6.1 million during 2009 due to the timing of payments at year end. Accrued service costs increased by $3.7 million, $4.2 million and $10.9 million for the years ended December 31, 2008, 2009 and 2010, respectively, as we grew our customer base from 46 sites at the beginning of 2008 to 66 at the end of 2010. While our business continued to grow during the years ended December 31, 2009 and 2010, deferred revenue decreased by $0.4 million and $0.8 million, respectively, as a result of the timing of customer payments at year end. Deferred revenue increased by $10.3 million during the year ended December 31, 2008, primarily due to growth in our business and timing of customer payments.

Investing Activities

Cash used in investing activities was $6.1 million, $7.2 million and $16.9 million for the years ended December 31, 2008, 2009 and 2010, respectively. For all three years, use of cash primarily related to our purchases of furniture, fixtures, computer hardware, software and other property to support the growth of our business.

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Financing Activities

Cash provided by financing activities was $97.1 million for the year ended December 31, 2010, primarily due to the receipt of proceeds from our initial public offering in May 2010.

Cash used in financing activities was $16.0 million for the year ended December 31, 2009 as compared to $16.3 million for the year ended December 31, 2008. These uses of cash are primarily due to the $15 million and $14.9 million of dividends declared by our board of directors in July 2008 and August 2009, respectively. The 2009 dividend was paid on all outstanding shares of common and preferred stock and aggregated $14.9 million. The reported figures are net of proceeds from stock option exercises and the repayment of non-executive employee loans. The net cash used in 2008 includes $1.5 million related to the repurchase of common stock from one of our initial employees. There were nominal repurchases in 2009 and none in 2010. Additionally, we incurred $2.9 million and $2.7 million of cash costs related to our efforts to prepare for our initial public offering during the years ended December 31, 2009 and 2010, respectively. No such costs were incurred in 2008.

Revolving Credit Facility

On September 30, 2009, we entered into a $15 million revolving line of credit with the Bank of Montreal, which may be used for working capital and general corporate purposes. Any amounts outstanding under the line of credit will accrue interest at LIBOR plus 4% and are secured by substantially all of our assets. Advances under the line of credit are limited to a borrowing base and a cash deposit account which will be established at the time borrowings occur. The line of credit has an initial term of two years and is renewable annually thereafter. As of December 31, 2010, we had no amounts outstanding under this line of credit; however, letters of credit to various landlords in the aggregate of approximately $1.9 million reduced our available line of credit to $13.1 million. The line of credit contains restrictive covenants which limit our ability to, among other things, enter into other borrowing arrangements and pay dividends.

Future Capital Needs

We intend to fund our future growth over the next 12 months with funds generated from operations, our net proceeds from our 2010 initial public offering and our revolving line of credit. Over the longer term, we expect that cash flows from operations, supplemented by short-term and long-term financing, as necessary, will be adequate to fund our day-to-day operations and capital expenditure requirements. Our ability to secure short-term and long-term financing in the future will depend on several factors, including our future profitability, the quality of our accounts receivable, our relative levels of debt and equity, and the overall condition of the credit markets.

Contractual Obligations

The following table presents our obligations and commitments to make future payments under contracts, such as lease agreements, and under contingent commitments as of December 31, 2010:

	Year Ended December 31,					
	2011	2012	2013	2014	2015 and Beyond	Total
	(In thousands)					
Minimum lease payments	$3,196	$2,593	$2,470	$2,466	$12,751	$23,476
Total	$3,196	$2,593	$2,470	$2,466	$12,751	$23,476

We rent office space and equipment under a series of operating leases, primarily for our Chicago corporate office, shared service centers and India operations. Lease payments are amortized to expense on a straight-line basis over the lease term. As of December 31, 2010, the Chicago corporate office consisted of approximately 50,000 square feet in a multi-story office building.

Pursuant to the master services agreement between us and Ascension Health and our individual agreements with hospitals affiliated with Ascension Health that contract for our services, our fees are subject

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to adjustment in the event specified performance milestones are not met, which could result in a reduction in future fees payable to us by such hospitals but would not obligate us to refund any payments. These potential reductions in future fees are not reflected in the above table because the amounts cannot be quantified and because, based on our experience to date, we do not anticipate that there will be any permanent reduction in future fees under these provisions. For additional information regarding these contract provisions, see "Related Person Transactions — Transactions With Ascension Health".

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Recent Accounting Pronouncements

In February 2010, the FASB issued Accounting Standards Update, or ASU, No. 2010-09 to amend ASC 855, *Subsequent Events,* which applies with immediate effect. The ASU removes the requirement to disclose the date through which subsequent events were evaluated in both originally issued and reissued financial statements for SEC filers.

In October 2009, the FASB issued ASU No. 09-13, *Revenue Recognition — Multiple Deliverable Revenue Arrangements,* or ASU 09-13. ASU 09-13 updates the existing multiple-element revenue arrangements guidance currently included in FASB ASC 605-25. The revised guidance provides for two significant changes to the existing multiple element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue and related costs for multiple-element arrangements than under the previous guidance. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The revised multiple element revenue arrangements guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, however, early adoption is permitted, provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We expect that the adoption of the ASU will have no material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures*. ASU 2010-06 provides new and amended disclosure requirements related to fair value measurements. Specifically, this ASU requires new disclosures relating to activity within Level 3 fair value measurements, as well as transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also amends the existing disclosure requirements relating to valuation techniques used for fair value measurements and the level of disaggregation a reporting entity should include in fair value disclosures. This update is effective for interim and annual reporting periods beginning after December 15, 2009. We adopted this ASU as of January 1, 2010. The adoption did not have a significant impact on our condensed consolidated financial statements.

Item 7A. *Qualitative and Quantitative Disclosures about Market Risk*

Interest Rate Sensitivity. Our interest income is primarily generated from interest earned on operating cash accounts. Our exposure to market risks related to interest expense is limited to borrowings under our revolving line of credit, which bears interest at LIBOR plus 4%. To date, there have been no borrowings under this facility. We do not enter into interest rate swaps, caps or collars or other hedging instruments.

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in the Indian rupee because a portion of our operating expenses are incurred by our subsidiary in India and are denominated in Indian rupees. However, we do not generate any revenues outside of the United States. For the years ended December 31, 2008, 2009 and 2010, 0.7%, 0.6% and 1.6%, respectively, of our expenses were denominated in Indian rupees. As a result, we believe that the risk of a significant impact on our operating income from foreign currency fluctuations is not substantial.

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Item 8. *Financial Statements and Supplementary Data*

The financial statements required by this Item are located beginning on page F-1 of this report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act as of December 31, 2010. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives of ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. Based upon the evaluation described above our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2010, our disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control Over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item with respect to our directors and executive officers will be contained in our 2011 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders" and is incorporated in this report by reference.

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance will be contained in our 2011 Proxy Statement under the caption "Section 16(A) Beneficial Ownership Reporting Compliance" and is incorporated in this report by reference.

The information required by this item with respect to corporate governance matters will be contained in our 2011 Proxy Statement under the caption "Corporate Governance" and is incorporated in this report by reference.

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Item 11. ***Executive Compensation***

The information required by this item will be contained in our 2011 Proxy Statement under the captions "Director Compensation," "Compensation Discussion and Analysis" and "Executive Compensation" and is incorporated in this report by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item with regard to security ownership of certain beneficial owners and management will be contained in our 2011 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders -Security Ownership of Certain Beneficial Owners and Management" and is incorporated in this report by reference.

The information required by this item with regard to securities authorized for issuance under equity compensation plans will be contained in our 2011 Proxy Statement under the caption ''Executive Compensation — Securities Authorized for Issuance under our Equity Compensation Plans" and is incorporated in this report by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item will be contained in our 2011 Proxy Statement under the captions "Related-Party Transactions" and "Corporate Governance" and is incorporated in this report by reference

Item 14. ***Principal Accountant Fees and Services***

The information required by this item will be contained in our 2011 Proxy Statement under the caption ''Ratification of the Selection of Independent Registered Public Accounting Firm" and is incorporated in this report by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

a) The following documents are filed as a part of this report:

(1) *Financial Statements*

The financial statements and notes thereto annexed to this report beginning on page F-1.

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(2) *Financial Statement Schedules*

Schedule of Valuation and Qualifying Accounts Disclosure

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

ACCRETIVE HEALTH, INC.
December 31, 2010

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(In thousands)		
Allowance for Doubtful Accounts					
Year Ended December 31, 2010	$ 82	$ 1,500	$ —	$ —	$ 1,582
Year Ended December 31, 2009	$ 82	$ —	$ —	$ —	$ 82
Year Ended December 31, 2008	$ 432	$ —	$ —	$ 350	$ 82
Deferred Tax Valuation Allowance					
Year Ended December 31, 2010	$ 139	$ —	$ 18	$ —	$ 157
Year Ended December 31, 2009	$ 3,629	$ —	$ —	$ 3,490	$ 139
Year Ended December 31, 2008	$ 4,733	$ —	$ —	$ 1,104	$ 3,629

All other supplemental schedules are omitted because of the absence of conditions under which they are required.

(3) *Exhibits*

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
4.1	Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.1*	Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2*	Form of Acknowledgement of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.3*	Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.4*	Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.5	Third Amended and Restated Stockholders' Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed on March 9, 2011)
10.6	Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed on September 29, 2009)

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Exhibit Number	Description
10.7	Lease Agreement, dated as of May 4, 2005, between the Registrant and Zeller Management Corporation, as amended by First Lease Amendment, dated as of January 30, 2007, and Second Lease Amendment, dated as of November 26, 2008 (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.8+	Amended and Restated Master Services Agreement, dated as of December 13, 2007, between the Registrant and Ascension Health (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.17*	Employment Agreement, dated as of January 2004, between the Registrant and Mary A. Tolan, as amended (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.18*	Employment Agreement, dated as of June 17, 2005, between the Registrant and John T. Staton, as amended (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.19*	Offer Letter, dated December 9, 2003, between the Registrant and Gregory N. Kazarian, as amended (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.20*	Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer (incorporated by reference to Exhibit 10.20 to Amendment No. 1 to the Registration Statement on Form S-1 filed on November 19, 2009)
10.21+	Credit Agreement, dated as of September 30, 2009, between the Registrant and Bank of Montreal (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.22+	Security Agreement, dated as of September 30, 2009, among the Registrant, Bank of Montreal and specified subsidiaries of the Registrant (incorporated by reference to Exhibit 10.22 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.23*	2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.24*	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.25*	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

\+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCRETIVE HEALTH, INC.

By: /s/ Mary A. Tolan

Mary A. Tolan
Founder, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mary A. Tolan Mary A. Tolan	Director, Founder, President and Chief Executive Officer (Principal Executive Officer)	March 18, 2011
/s/ John T. Staton John T. Staton	Chief Financial Officer and Treasurer (Principal Financial Officer)	March 18, 2011
/s/ James M. Bolotin James M. Bolotin	Corporate Controller (Principal Accounting Officer)	March 18, 2011
/s/ J. Michael Cline J. Michael Cline	Founder and Chairman of the Board	March 18, 2011
/s/ Edgar M. Bronfman, Jr. Edgar M. Bronfman, Jr.	Director	March 18, 2011
/s/ Steven N. Kaplan Steven N. Kaplan	Director	March 18, 2011
/s/ Denis J. Nayden Denis J. Nayden	Director	March 18, 2011
/s/ George P. Shultz George P. Shultz	Director	March 18, 2011
/s/ Arthur H. Spiegel, III Arthur H. Spiegel, III	Director	March 18, 2011
/s/ Mark A. Wolfson Mark A. Wolfson	Director	March 18, 2011

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Accretive Health, Inc.

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Accretive Health, Inc.:

We have audited the accompanying consolidated balance sheets of Accretive Health, Inc. as of December 31, 2009 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Accretive Health, Inc. at December 31, 2009 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois
March 9, 2011

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Accretive Health, Inc.

Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 2009	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 43,659	$155,573
Accounts receivable, net of allowance for doubtful accounts of $82 and $1,582 at December 31, 2009 and 2010, respectively	27,519	53,894
Prepaid assets	4,283	13,336
Due from related party	1,273	1,283
Other current assets	1,337	1,659
Total current assets	78,071	225,745
Deferred income tax	7,739	11,405
Furniture and equipment, net	12,901	21,698
Goodwill	1,468	1,468
Other, net	3,293	2,303
Total assets	$103,472	$262,619
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 11,967	$ 30,073
Accrued service costs	27,742	38,649
Accrued compensation and benefits	12,114	13,331
Deferred income tax	4,188	6,016
Accrued income taxes	41	—
Other accrued expenses	3,531	6,062
Deferred revenue	22,610	21,857
Total current liabilities	82,193	115,988
Non-current liabilities:		
Other non-current liabilities	—	3,912
Total non-current liabilities	—	3,912
Total liabilities	$ 82,193	$119,900
Commitments and contingencies	—	—
Stockholders' equity:		
Convertible preferred stock, Series A, $0.01 par value, 32,317 shares authorized, issued and outstanding at December 31, 2009; no shares authorized, issued or outstanding at December 31, 2010	—	—
Convertible preferred stock, Series D, $0.01 par value, 1,267,224 shares authorized, issued, and outstanding at December 31, 2009; no shares authorized, issued or outstanding at December 31, 2010	13	—
Preferred stock, $0.01 par value; no shares authorized; issued or outstanding, at December 31, 2009; 5,000,000 shares authorized and no shares issued or outstanding at December 31, 2010	—	—
Series B common stock, $0.01 par value, 68,600,000 shares authorized, 32,156,932 shares issued and outstanding at December 31, 2009; no shares authorized, issued or outstanding at December 31, 2010	82	—
Series C common stock, $0.01 par value, 31,360,000 shares authorized, 5,257,727 shares issued and outstanding at December 31, 2009; no shares authorized, issued or outstanding at December 31, 2010	13	—
Common Stock, $0.01 par value, no shares authorized, issued or outstanding at December 31, 2009; 500,000,000 shares authorized, 94,826,509 shares issued and outstanding as of December 31, 2010	—	948
Additional paid-in capital	51,777	159,780
Non-executive employee loans for stock option exercises	(120)	(41)
Accumulated deficit	(30,452)	(17,834)
Cumulative translation adjustment	(34)	(134)
Total stockholders' equity	21,279	142,719
Total liabilities and stockholders' equity	$103,472	$262,619

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.

Consolidated Statements of Operations
(In thousands, except share and per share amounts)

	Year Ended December 31, 2008	2009	2010
Net services revenue	$ 398,469	$ 510,192	$ 606,294
Costs of services	335,211	410,711	478,276
Operating margin	63,258	99,481	128,018
Other operating expenses:			
Infused management and technology	39,234	51,763	64,029
Selling, general and administrative	21,227	30,153	41,671
Total operating expenses	60,461	81,916	105,700
Income from operations	2,797	17,565	22,318
Net interest income (expense)	710	(9)	29
Net income before provision for income taxes	3,507	17,556	22,347
Provision for income taxes	2,264	2,966	9,729
Net income	$ 1,243	$ 14,590	$ 12,618
Dividends on preferred shares	(8,048)	(8,044)	—
Net income (loss) applicable to common shareholders	$ (6,805)	$ 6,546	$ 12,618
Net income (loss) per common share			
Basic	$ (0.19)	$ 0.17	$ 0.18
Diluted	(0.19)	0.15	0.13
Weighted-average shares used in calculating net income (loss) per common share			
Basic	36,122,470	36,725,194	70,732,791
Diluted	36,122,470	43,955,167	94,206,677
Cash dividends declared per common share	$ 0.18	$ 0.18	$ —

See accompanying notes to consolidated financial statements

Accretive Health, Inc.

Consolidated Statements of Stockholders' Equity
(In thousands, except share amounts)

	Convertible Preferred Stock Series A		Convertible Preferred Stock Series D		Series B Common Stock		Series C Common Stock		Common Stock		Additional Paid-In Capital	Non-Executive Employee Loans for Stock Option Exercises	Accumulated Deficit	Cumulative Translation Adjustment	Total	Comprehensive Income
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2007	32,317	$ —	1,267,224	$ 13	18,756,251	$ 48	17,491,592	$ 44	—	$ —	$ 32,361	$ (320)	$ (16,246)	$ 10	$ 15,910	$ 784
Implementation of FASB Interpretation No. 48	—	—	—	—	—	—	—	—	—	—	—	—	(97)	—	(97)	—
Exchange of Series C to Series B Stock	—	—	—	—	12,975,007	33	(12,975,007)	(33)	—	—	—	—	—	—	—	—
Issuance of class B common stock	—	—	—	—	261,277	1	—	—	—	—	—	—	—	—	1	—
Exercise of vested stock options	—	—	—	—	—	—	14,700	—	—	—	18	—	—	—	18	—
Vesting of previously exercised options	—	—	—	—	—	—	589,470	2	—	—	649	—	—	—	651	—
Repayments of amounts loaned to employees related to stock option exercises, net	—	—	—	—	—	—	—	—	—	—	—	57	—	—	57	—
Share repurchases	—	—	—	—	—	—	(135,566)	—	—	—	(1,510)	—	—	—	(1,510)	—
Issuance of stock warrants	—	—	—	—	—	—	—	—	—	—	3,332	—	—	—	3,332	—
Compensation expense related to restricted common stock	—	—	—	—	—	—	—	—	—	—	5	—	—	—	5	—
Compensation expense related to stock options	—	—	—	—	—	—	—	—	—	—	3,546	—	—	—	3,546	—
Currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	(232)	(232)	(232)
Dividends declared	—	—	—	—	—	—	—	—	—	—	—	—	(15,001)	—	(15,001)	—
Net income	—	—	—	—	—	—	—	—	—	—	—	—	1,243	—	1,243	1,243
Balance at December 31, 2008	32,317	$ —	1,267,224	$ 13	31,992,535	$ 82	4,985,189	$ 13	—	$ —	$ 38,401	$ (263)	$ (30,101)	$ (222)	$ 7,923	$ 1,011
Exercise of vested stock options	—	—	—	—	—	—	116,620	—	—	—	209	—	—	—	209	—
Vesting of previously exercised options	—	—	—	—	—	—	161,210	—	—	—	215	—	—	—	215	—
Issuance of class B common stock	—	—	—	—	164,397	—	—	—	—	—	—	—	—	—	—	—
Repayments of amounts loaned to employees related to stock option exercises, net	—	—	—	—	—	—	—	—	—	—	—	143	—	—	143	—
Share repurchases	—	—	—	—	—	—	(5,292)	—	—	—	(13)	—	—	—	(13)	—
Issuance of stock warrants	—	—	—	—	—	—	—	—	—	—	4,509	—	—	—	4,509	—
Compensation expense related to stock options	—	—	—	—	—	—	—	—	—	—	6,917	—	—	—	6,917	—
Excess tax benefit from equity-based awards	—	—	—	—	—	—	—	—	—	—	1,539	—	—	—	1,539	—
Currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	188	188	188
Dividends declared	—	—	—	—	—	—	—	—	—	—	—	—	(14,941)	—	(14,941)	—
Net income	—	—	—	—	—	—	—	—	—	—	—	—	14,590	—	14,590	14,590
Balance at December 31, 2009	32,317	$ —	1,267,224	$ 13	32,156,932	$ 82	5,257,727	$ 13	—	$ —	$ 51,777	$ (120)	$ (30,452)	$ (34)	$ 21,279	$ 14,778

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Accretive Health, Inc.

Consolidated Statements of Stockholders' Equity — (Continued)
(In thousands, except share amounts)

	Convertible Preferred Stock Series A		Convertible Preferred Stock Series D		Series B Common Stock		Series C Common Stock		Common Stock		Additional Paid-In Capital	Non-Executive Employee Loans for Stock Option Exercises	Accumulated Deficit	Cumulative Translation Adjustment	Total	Comprehensive Income
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2009	32,317	$ —	1,267,224	$ 13	32,156,932	$ 82	5,257,727	$ 13	—	$ —	$ 51,777	$ (120)	$ (30,452)	$ (34)	$ 21,279	—
Issuance of Class B common stock	—	—	—	—	29,926	—	—	—	—	—	—	—	—	—	—	—
Exercise of vested stock options	—	—	—	—	—	—	33,320	—	517,375	5	1,248	—	—	—	1,253	
Vesting of previously exercised options	—	—	—	—	—	—	81,830	—	23,806	—	169	—	—	—	169	
Conversion to common stock	(32,317)	—	(1,267,224)	(13)	(32,186,858)	(82)	(5,372,877)	(13)	81,356,333	814	(706)	—	—	—	—	—
Issuance of shares in the initial public offering	—	—	—	—	—	—	—	—	7,666,667	77	86,403	—	—	—	86,480	—
Liquidation preference payment	—	—	—	—	—	—	—	—	1,265,012	13	(879)	—	—	—	(866)	—
Initial public offering costs	—	—	—	—	—	—	—	—	115,000	1	(5,664)	—	—	—	(5,663)	—
Repayments of amounts loaned to employees related to stock option exercises, net	—	—	—	—	—	—	—	—			—	79	—	—	79	
Exercise of stock warrants	—	—	—	—	—	—	—	—	3,882,316	38	896	—	—	—	934	—
Compensation expense related to stock options	—	—	—	—	—	—	—	—	—	—	16,549	—	—	—	16,549	—
Excess tax benefit from equity-based awards	—	—	—	—	—	—	—	—	—	—	9,987	—	—	—	9,987	
Currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	(100)	(100)	(100)
Net income	—	—	—	—	—	—	—	—	—	—	—	—	12,618	—	12,618	12,618
Balance at December 31, 2010	—	$ —	—	$ —	—	$ —	—	$ —	94,826,509	$ 948	$ 159,780	$ (41)	$ (17,834)	$ (134)	$142,719	$ 12,518

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.

Consolidated Statements of Cash Flows (In thousands)

	Year Ended December 31, 2008	2009	2010
Operating activities			
Net income	$ 1,243	$ 14,590	$ 12,618
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	2,540	3,921	6,157
Employee stock based compensation	3,551	6,917	16,549
Expense associated with the issuance of stock warrants	3,332	4,509	—
Deferred income taxes	—	(3,552)	(3,736)
Excess tax benefit from equity based awards	—	(1,539)	(11,910)
Loss on disposal of equipment	70	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,309)	(7,313)	(26,374)
Prepaid and other current assets	(1,381)	(1,678)	2,560
Accounts payable	15,546	(6,113)	18,093
Accrued service costs	3,715	4,195	10,907
Accrued compensation and benefits	3,563	2,960	1,210
Other accrued expenses	173	(253)	3,517
Accrued income taxes	1,208	(1,168)	(41)
Deferred rent expense	—	—	3,199
Deferred revenue	10,275	(377)	(753)
Net cash provided by operating activities	39,525	15,099	31,996
Investing activities			
Purchases of furniture and equipment	(1,843)	(3,514)	(9,670)
Acquisition of software	(4,988)	(4,348)	(5,355)
Collection (issuance) of note receivable	698	618	(1,844)
Net cash used in investing activities	(6,133)	(7,244)	(16,869)
Financing activities			
Proceeds from initial public offering, net of issuance costs	—	—	83,756
Liquidation preference payment	—	—	(866)
Proceeds from issuance of common stock from warrant exercises	1	—	934
Proceeds from issuance of common stock from employee stock option exercise	150	214	1,253
Collection of non-executive employee notes receivable	57	143	79
Excess tax benefit from equity based awards	—	1,539	11,910
Deferred offering costs	—	(2,939)	—
Payment of dividends	(15,001)	(14,941)	—
Repurchase of common stock	(1,510)	(13)	—
Net cash provided by (used in) financing activities	(16,303)	(15,997)	97,066
Effect of exchange rate changes in cash	(178)	145	(279)
Net increase (decrease) in cash and cash equivalents	16,911	(7,997)	111,914
Cash and cash equivalents at beginning of period	34,745	51,656	43,659
Cash and cash equivalents at end of period	$ 51,656	$ 43,659	$155,573
Supplemental disclosures of cash flow information			
Interest paid	$ —	$ 160	$ —
Taxes paid	1,137	8,254	9,460
Exercise of unvested stock options	132	5	—
Supplemental disclosures of noncash financing transactions			
Issuance of notes receivable to non-executive employees	$ (585)	$ —	$ —
Vesting of previously exercised stock options	651	215	169

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.

Notes to Consolidated Financial Statements

1. Description of Business

Accretive Health, Inc. (the "Company") is a leading provider of healthcare revenue cycle management services. The Company's business purpose is to help U.S. hospitals, physicians and other healthcare providers manage their revenue cycle operations more efficiently. The Company's integrated, end-to-end technology and services offering, which is referred to as Accretive's solution, helps customers realize sustainable improvements in their operating margins and improve the satisfaction of their patients, physicians and staff. The Company enables these improvements by helping customers increase the portion of the maximum potential revenue received while reducing total revenue cycle costs.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Stock Split

Immediately prior to the consummation of the initial public offering of the Company's common stock in May 2010, the number of authorized common and preferred shares was increased to 500,000,000 and 5,000,000, respectively. In addition, all common share and per share amounts in the consolidated financial statements and notes thereto have been restated to reflect a stock split effective on May 3, 2010 whereby each share of common stock was reclassified into 3.92 shares of common stock.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

The Company regularly evaluates its accounting policies and estimates. In general, estimates are based on historical experience and on assumptions believed to be reasonable given the Company's operating environment. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may differ from these estimates.

Revenue Recognition

The Company's managed service contracts generally have an initial term of four to five years and various start and end dates. After the initial terms, these contracts renew annually unless canceled by either party. Revenue from managed service contracts consists of base fees and incentive payments.

The Company records net services revenue in accordance with the provisions of Staff Accounting Bulletin 104. As a result, the Company only records revenue once there is persuasive evidence of an arrangement, services have been rendered, the amount of revenue has become fixed or determinable and collectibility is reasonably assured. The Company recognizes base fee revenues on a straight-line basis over the life of the contract. Base fees for managed service contracts which are received in advance of services delivered are classified as deferred revenue in the consolidated balance sheets until services have been provided.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

Some of the Company's service contracts entitle customers to receive a share of the cost savings achieved from operating their revenue cycle. This share is credited to the customers as a reduction in subsequent base fees. Services revenue is reported net of cost sharing and is referred to as net services revenue.

The Company's managed service contracts generally allow for adjustments to the base fee. Adjustments typically occur at 90, 180 or 360 days after the contract commences, but can also occur at subsequent dates as a result of factors including changes to the scope of operations and internal and external audits. All adjustments, the timing of which is often dependent on factors outside of the Company's control and which can increase or decrease revenue and operating margin, are recorded in the period the changes are known and collectibility of any additional fees is reasonably assured. Any such adjustments may cause the Company's quarter-to-quarter results of operations to fluctuate.

The Company records revenue for incentive payments once the calculation of the incentive payment earned is finalized and collectibility is reasonably assured. The Company uses a proprietary technology and methodology to calculate the amount of benefit each customer receives as a result of the Company's services. The Company's calculations are based in part on the amount of revenue each customer is entitled to receive from commercial and private insurance carriers, Medicare, Medicaid and patients. Because the laws, regulations, instructions, payor contracts and rule interpretations governing how the Company's customers receive payments from these parties are complex and change frequently, estimates of a customer's prior period benefits could change. All changes in estimates are recorded when new information is available and calculations are completed.

Incentive payments are based on the benefits a customer has received throughout the life of the contract. Each quarter, the Company records its share of the increase in the cumulative benefits the customer has received to date. If a quarterly calculation indicates that the cumulative benefits to date have decreased, the Company records a reduction in revenue. If the decrease in revenue exceeds the amount previously paid by the customer, the excess is recorded as deferred revenue.

The Company's services also include collection of dormant patient accounts receivable that have aged 365 days or more directly from individual patients. The Company shares all cash generated from these collections with its customers in accordance with specified arrangements. The Company records as revenue its portion of the cash received from these collections when each customer's cash application is complete.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable and Allowance for Uncollectible Accounts

Base fees and incentive payments are billed to customers quarterly. Base fees received prior to when services are delivered are classified as deferred revenue.

The Company assesses its customers' creditworthiness as a part of its customer acceptance process. The Company maintains an estimated allowance for doubtful accounts to reduce its gross accounts receivable to the amount that it believes will be collected. This allowance is based on the Company's historical experience, its assessment of each customer's ability to pay and the status of any ongoing operations with each applicable customer.

The Company performs quarterly reviews and analyses of each customer's outstanding balance and assesses, on an account-by-account basis, whether the allowance for doubtful accounts needs to be adjusted based on currently available evidence such as historical collection experience, current economic trends and

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

changes in customer payment terms. In accordance with the Company's policy, if collection efforts have been pursued and all avenues for collections exhausted, accounts receivable would be written off as uncollectible.

Activity in the allowance for doubtful accounts is as follows:

	Year Ended December 31,		
	2008	2009	2010
Beginning balance	$ 432	$ 82	$ 82
Provision	—	—	1,500
Write-offs and adjustments	(350)	—	—
Ending balance	$ 82	$ 82	$1,582

Accrued Service Costs

Accrued service costs represent estimated amounts due to customers and vendors for hospital operating costs for which the Company has not yet received invoices and other costs directly related to managed service contracts.

Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value (i) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date, (ii) establishes a framework for measuring fair value, (iii) establishes a hierarchy of fair value measurements based upon the observability of inputs used to value assets and liabilities, (iv) requires consideration of nonperformance risk, and (v) expands disclosures about the methods used to measure fair value.

The accounting standard establishes a three-level hierarchy of measurements based upon the reliability of observable and unobservable inputs used to arrive at fair value. Observable inputs are independent market data, while unobservable inputs reflect the Company's assumptions about valuation. The three levels of the hierarchy are defined as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices but are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial assets which are required to be measured at fair value on a recurring basis consist of cash equivalents, which are invested in highly liquid money market funds and treasury securities and accordingly classified as level 1 assets in the fair value hierarchy. The Company does not have any financial liabilities which are required to be measured at fair value on a recurring basis.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

Furniture and Equipment

Furniture and equipment are stated at cost, less accumulated depreciation determined on the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	Shorter of 10 years or lease term
Office furniture	5 years
Capitalized software	3 to 5 years
Computers and other equipment	3 years

Software Development

The Company applies the provisions of Accounting Standards Codification ("ASC") 350-40, *Intangibles — Goodwill and Other — Internal Use Software,* which requires the capitalization of costs incurred in connection with developing or obtaining internal use software. In accordance with ASC 350-40, the Company capitalizes the costs of internally-developed, internal use software when an application is in the development stage. This generally occurs after the overall design and functionality of the application has been approved and management has committed to the application's development. Capitalized software development costs consist of payroll and payroll-related costs for employee time spent developing a specific internal use software application or related enhancements, and external costs incurred that are related directly to the development of a specific software application.

Goodwill

Goodwill represents the excess purchase price over the net assets acquired for a business that the Company acquired in May 2006. In accordance with ASC 350, *Intangibles — Goodwill and Other,* goodwill is not subject to amortization but is subject to impairment testing at least annually. The Company's annual impairment assessment date is the first day of the fourth quarter. The Company conducts its impairment testing on a company-wide basis because it has only one operating and reporting segment. The Company's impairment tests are based on its current business strategy in light of present industry and economic conditions and future expectations.

As the Company applies its judgment to estimate future cash flows and an appropriate discount rate, the analysis reflects assumptions and uncertainties. The Company's estimates of future cash flows could differ from actual results. There was no goodwill impairment during the years ended December 31, 2008, 2009 and 2010.

Foreign Currency

The functional currency of each entity included in the consolidated financial statements is its respective local currency, which is also the currency of the primary economic environment in which it operates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statements of operations.

The assets and liabilities of the subsidiaries which use a functional currency other than the U.S. dollar are translated into U.S. dollars at the rate of exchange prevailing on the balance sheet dates. Revenues and expenses are translated into U.S. dollars at the average exchange rate during each month. Resulting translation adjustments are included in the cumulative translation adjustment in the consolidated balance sheets.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

Impairments of Long-Lived Assets

The Company evaluates all of its long-lived assets, such as furniture, equipment, software and other intangibles, for impairment in accordance with ASC 360, *Property, Plant and Equipment*, when events or changes in circumstances warrant such a review. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an adjustment to fair value is required.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance for deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

As of December 31, 2008 and in all prior periods, a valuation allowance was recorded for all of the Company's net deferred tax assets. As a result of the Company's improved operations, in 2009 the Company determined that it was no longer necessary to maintain a valuation allowance for all of its deferred tax assets.

Beginning January 1, 2008, with the adoption of ASC 740-10 *Income Taxes — Overall*, the Company recognizes the financial statement effects of a tax position only when it is more likely than not that the position will be sustained upon examination. Tax positions taken or expected to be taken that are not recognized under the pronouncement are recorded as liabilities. Interest and penalties relating to income taxes are recognized in our income tax provision in the statements of consolidated operations.

As a result of the Company's adoption of ASC 740-10, the Company recognized a $0.2 million increase to reserves for uncertain tax positions, of which $0.1 million was recorded as a cumulative effect adjustment to retained earnings. The remaining $0.1 million related to current year changes and was recorded as an expense in 2008.

The Company recognizes interest and penalties relating to income tax matters in the income tax provision.

Share-Based Compensation

Share-based compensation expense results from awards of restricted common stock and grants of stock options and warrants to employees, directors, outside consultants, customers, vendors and others. The Company recognizes the costs associated with option and warrant grants using the fair value recognition provisions of ASC 718, *Compensation — Stock Compensation*. Generally, ASC 718 requires the value of all share-based payments to be recognized in the statement of operations based on their estimated fair value at date of grant amortized over the grant's vesting period. The Company uses the straight-line method to amortize compensation costs over the grants' respective vesting periods. The Company does not hold any treasury shares, so all option exercises result in the issuance of new shares.

Legal Proceedings

In the normal course of business, the Company is involved in legal proceedings or regulatory investigations. The Company evaluates the need for loss accruals using the requirements of ASC 450, *Contingencies*.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

When conducting this evaluation, the Company considers factors such as the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. The Company records an estimated loss for any claim, lawsuit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, then the Company records the minimum amount in the range as its loss accrual. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

New Accounting Standards and Disclosures

In February 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-09 to amend ASC 855, *Subsequent Events*, which applies with immediate effect. The ASU removes the requirement to disclose the date through which subsequent events were evaluated in both originally issued and reissued financial statements for SEC Filers.

In October 2009, the FASB issued ASU No. 09-13, *Revenue Recognition — Multiple Deliverable Revenue Arrangements* ("ASU 09-13"). ASU 09-13 updates the existing multiple-element revenue arrangements guidance currently included in FASB ASC 605-25. The revised guidance provides for two significant changes to the existing multiple element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue and related costs for multiple-element arrangements than under the previous guidance. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The revised multiple element revenue arrangements guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, however, early adoption is permitted, provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company expects that the adoption of the ASU will have no material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures*. ASU 2010-06 provides new and amended disclosure requirements related to fair value measurements. Specifically, this ASU requires new disclosures relating to activity within Level 3 fair value measurements, as well as transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also amends the existing disclosure requirements relating to valuation techniques used for fair value measurements and the level of disaggregation a reporting entity should include in fair value disclosures. This update is effective for interim and annual reporting periods beginning after December 15, 2009. The Company adopted this ASU as of January 1, 2010. The adoption did not have a significant impact on the Company's condensed consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

3. Net Services Revenue

The Company's net services revenue consisted of the following for each of the three years ending December 31 (in thousands):

	2008	2009	2010
Net base fees for managed service contracts	$350,085	$434,281	$518,243
Incentive payments for managed service contracts	38,971	64,033	74,663
Other services	9,413	11,878	13,388
Total	$398,469	$510,192	$606,294

4. Infused Management and Technology Expenses

Infused management and technology expenses consist primarily of the wages, bonuses, benefits, share-based compensation, travel and other costs associated with deploying the Company's employees on customer sites to guide and manage customers' revenue cycle operations. The employees that the Company deploys on customer sites typically have significant experience in revenue cycle operations, technology, quality control or other management disciplines. The other significant portion of these expenses is an allocation of the costs associated with maintaining, improving and deploying the Company's integrated proprietary technology suite and an allocation of the amortization relating to software development costs capitalized.

5. Segments and Concentrations

All of the Company's significant operations are organized around the single business of providing end-to-end management services of revenue cycle operations for U.S.-based hospitals and other medical providers. Accordingly, for purposes of disclosure under ASC 280, *Segment Reporting*, the Company has only one operating and reporting segment.

All of the Company's net services revenue and trade accounts receivable are derived from healthcare providers domiciled in the United States.

While managed independently and governed by separate contracts, several of the Company's customers are affiliated with a single healthcare system, Ascension Health. Pursuant to the Company's master services agreement with Ascension Health, the Company provides services to Ascension Health's affiliated hospitals that execute separate contracts with the Company. The Company's aggregate net services revenue from these hospitals accounted for 70.7%, 60.3% and 50.7% of the Company's total net services revenue during the years ended December 31, 2008, 2009 and 2010, respectively. The Company had $17.7 million and $22.1 million of accounts receivable from hospitals affiliated with Ascension Health as of December 31, 2009 and 2010, respectively.

In addition, another customer, which is not affiliated with Ascension Health, accounted for 10.6%, 9.1%, and 6.8% of the Company's total net services revenue in the years ended December 31, 2008, 2009 and 2010, respectively. Henry Ford Health System, which is not affiliated with Ascension Health, with whom the Company entered into a managed service contract in 2009, accounted for 9.2% and 11.3% of the Company's total net services revenue in the years ended December 31, 2009 and 2010, respectively. Furthermore, Fairview Health Services, which is not affiliated with Ascension Health, with which the Company entered into a managed service contract in 2010, accounted for 10.7% of the Company's total net services revenue for the year ended December 31, 2010. No other non-Ascension Health customer accounted for more than 10% of the Company's total net services revenue in any of the periods presented.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

6. Due from Related Party

Pursuant to the acquisition of a business in May 2006, the sellers, a majority of which are now employees of the Company, are obligated to indemnify the Company for federal and state income taxes related to periods up to and including the date of the acquisition. The net amount due to the Company related to this indemnity was $1.3 million as of December 31, 2009 and 2010 and is presented as due from related party in the consolidated balance sheets. This amount is secured by 547,510 shares of the Company's common stock held in escrow.

7. Furniture and Equipment

Furniture and equipment consist of the following (in thousands):

	December 31,	
	2009	2010
Construction in progress	$ 845	$ 464
Capitalized software	13,575	20,270
Computer equipment	3,582	5,750
Leasehold improvements	1,770	6,376
Other equipment	608	1,017
Office furniture	709	2,163
	21,089	36,040
Less accumulated depreciation and amortization	(8,188)	(14,342)
	$12,901	$ 21,698

Net furniture and equipment located in India accounted for approximately 6.7% and 6.9% of total net assets at December 31, 2009 and 2010, respectively. The Company recorded $3.9 million and $6.1 million of depreciation and amortization expense related to its furniture and equipment for the years ended December 31, 2009 and 2010, respectively.

8. Non-Executive Employee Loans

In March 2006, certain non-executive employees of the Company exercised options to purchase an aggregate of 4,246,147 shares of common stock. To facilitate this stock option exercise, the Company permitted these employees to deliver promissory notes to the Company representing the exercise price related to these option exercises. The aggregate amount loaned to employees for this purpose was approximately $0.3 million. Certain employees elected under Section 83(b) of the Internal Revenue Code to be taxed on the difference between the stock's fair value at the purchase date and the option exercise price. In addition, pursuant to the promissory notes, the Company advanced an additional $0.1 million to such employees to facilitate the payment of such federal and state income tax obligations.

Each of the individual promissory notes bears interest at 5% per annum. The principal of each note is payable annually in five equal installments, commencing on March 1, 2007. Each promissory note is secured by the shares of the Company's common stock associated with the employee's stock option exercise. If an employee sells any shares issued pursuant to his or her stock option exercise, then a pro rata portion of the associated promissory note becomes immediately due. Any unpaid balance on an employee's promissory note becomes due and payable 60 days after such employee ceases to work for the Company.

The amounts receivable from these notes, $0.1 million and $0.04 million at December 31, 2009 and 2010 respectively, have been deducted from stockholders' equity.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

9. Stockholders' Equity

Preferred Stock

In conjunction with its initial public offering in May 2010, the Company restated its certificate of incorporation and authorized 5,000,000 shares of preferred stock with a par value $0.01. The preferred stock may be issued from time to time in one or more series, each of which may have distinctive designations as determined by the Company's board of directors prior to the issuance of the preferred shares. Each series of preferred stock may have no, limited, or full voting powers and other special rights, conversion features, redemption features, dividend participation criteria, qualifications, limitations, and restrictions as stated and expressed in board resolutions providing for the issuance of such series of preferred stock. As of December 31, 2010, the Company does not have any shares of preferred stock outstanding.

Conversion of Preferred Stock to Common Stock

In conjunction with the initial public offering in May 2010, 32,317 shares of Series A preferred stock and 1,267,224 shares of Series D preferred stock were converted into 43,796,598 shares of common stock. Additionally, in May 2010, the preferred shareholders exercised their right to receive an amount in cash or shares equal to the pre-determined liquidation preference amount. The Company issued 1,265,012 shares and paid $0.9 million in satisfaction of liquidation preference payments due to preferred shareholders.

Common Stock

In May 2010, the Company completed its initial public offering, in which the Company sold 7,666,667 shares of common stock and selling stockholders sold 3,833,333 shares of common stock at an offering price of $12.00 per share. The offering resulted in net proceeds to the Company of $80.8 million after underwriting discounts and offering expenses, of which $2.9 million were incurred prior to December 31, 2009. The Company also issued 115,000 shares of common stock to a vendor for services performed in connection with the offering. In addition, in connection with the offering, the Company restated its certificate of incorporation and authorized 500,000,000 shares of common stock, par value $0.01. Each share of common stock is entitled to one vote. In connection with the initial public offering, 32,186,858 shares of Series B common stock and 5,372,877 shares of Series C common stock were reclassified as 37,559,735 shares of common stock.

Dividends

The Company paid a cash dividend in the aggregate amount of $15.0 million, or $0.18 per common equivalent share, to holders of record as of July 11, 2008 of the Company's common stock and preferred stock.

The Company paid a cash dividend in the aggregate amount of $14.9 million, or $0.18 per common equivalent share, to holders of record as of September 1, 2009 of the Company's common stock and preferred stock.

Warrants

Supplemental Warrants

Effective in October 2004, the Company entered into a Supplemental Warrant Agreement with Ascension Health, its founding customer, which provided for the right to purchase up to 3,537,306 shares of Series B common stock based upon the achievement of specified milestones relating to the customer's sales and marketing assistance. In May and September 2007, the Company and Ascension Health agreed to amend and restate the Supplemental Warrant Agreement to reduce the number of shares covered by the warrant to

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

1,749,064 and to extend the period of time covered by the Supplemental Warrant Agreement. The measurement date for each purchase right earned under the warrant was the date when the founding customer's performance was complete, which was the date that the Company entered into a managed service contract with a customer for which the founding customer provided marketing assistance. The purchase price of the shares is equal to the most recent per share price of the Company's Series B common stock in a capital raising transaction or, if there has not been a capital raising transaction within the preceding six months, the exercise price of the Company's most recently granted employee stock options.

During March 2008, the founding customer earned the right to purchase 437,268 shares of Series B common stock under the Amended Supplemental Warrant Agreement. The warrants have an exercise price of $10.25 per share. The Company recorded $2.4 million as marketing expenses during the year ended December 31, 2008 in conjunction with the issuance of this warrant.

During March 2009, the founding customer earned the right to purchase 437,264 shares of Series B common stock under the Amended Supplemental Warrant Agreement. The warrants have an exercise price of $13.02 per share. The Company recorded $2.8 million as marketing expenses during the year ended December 31, 2009 in conjunction with the issuance of this warrant.

No warrants were earned during the year ended December 31, 2010. The Company's founding customer was issued 615,649 shares of common stock as a result of cashless exercise of outstanding supplemental warrants during the year ended December 31, 2010. The supplemental warrant with respect to 437,264 shares of common stock issued in March 2009, expired on the date of the Company's initial public offering.

As of December 31, 2010, there were no supplemental warrants outstanding; no additional warrant rights may be earned under the Supplemental Warrant Agreement.

Protection Warrants

Effective November 2004, the Company entered into a Protection Warrant Agreement with the founding customer whereby the Company granted the customer anti-dilution rights by entering into an agreement whereby the founding customer is granted warrants to purchase the Company's Series B common stock from time to time at an exercise price of $0.003 per share when the customer's original ownership percentage declines as a result of the Company offering more common share equivalents.

In the years ended December 31, 2008 and 2009, warrants to purchase 91,183 and 136,372 shares of Series B common stock, respectively, were earned under the Protection Warrant. None were earned in 2010. As a result of these grants, revenue recorded was reduced by $0.9 million and $1.7 million during the years ended December 31, 2008 and 2009, respectively.

During the years ended December 31, 2008 and 2009, the founding customer purchased 261,275 and 164,396 shares of the Company's Series B common stock, respectively, for $0.003 per share, pursuant to the Protection Warrant Agreement. As of December 31, 2010, there were no protection warrants outstanding and no additional warrant rights may be earned under this Agreement.

Consulting Warrant

In conjunction with the start of its business, in February 2004, the Company executed a term sheet with a consulting firm and its principal contemplating that the Company would grant the consulting firm a warrant, with an exercise price equal to the fair market value of the Company's common stock upon grant, to purchase shares of the Company's common stock then representing 2.5% of the Company's equity in exchange for exclusive rights to certain revenue cycle methodologies, tools, technology, benchmarking information and other intellectual property, plus up to another 2.5% of the Company's equity at the time of grant if the consulting firm's introduction of the Company to senior executives at prospective customers resulted in the execution of managed

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

service contracts between the Company and such customers. In January 2005, the Company formalized the warrant grant contemplated by the term sheet and granted the consulting firm a warrant to purchase 3,266,668 shares of the Company's Series C common stock for $0.29 per share, representing 5.0% of the Company's equity at that time.

In December 2010, the consulting firm and its principal exercised the warrant in full to purchase 3,266,668 shares of the Company's common stock for $0.29 per share. As of December 31, 2010, the warrant was no longer outstanding and no additional warrant rights may be earned under this agreement.

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of all of the above warrants at the date granted. The significant assumptions used in the model were:

	Year Ended December 31,		
	2008	2009	2010
Future dividends	—	—	—
Risk-free interest rate	3.45%	2.91%	—
Expected volatility	50%	50%	—
Expected life	6.6 years	5.6 years	—

Stock Options

In December 2005, the Board approved a stock option plan, which provided for the grant of stock options to employees, directors and consultants. The plan was amended and restated in February 2006. In April 2010, the Company adopted a new 2010 Stock Incentive Plan, or the 2010 plan, which became effective immediately prior to the closing of the Company's initial public offering, and accordingly, the Company ceased making further grants under the 2006 plan. The 2010 plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards and other stock-based awards.

As of December 31, 2010, an aggregate of 15,749,404 shares were subject to outstanding options under both plans, and 8,054,762 shares were available for grant under the 2010 plan. To the extent that previously granted awards under the 2006 plan or 2010 plan expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company, the number of shares available for future awards will increase, up to a maximum of 24,374,756 shares. Under the terms of both plans, all options will expire if they are not exercised within ten years after the grant date. Substantially all of the options vest over four years at a rate of 25% per year on each grant date anniversary. Options granted under the 2006 plan could be exercised immediately upon grant, but upon exercise the shares issued are subject to the same vesting and repurchase provisions that applied before the exercise. Options granted under the 2010 plan cannot be exercised prior to vesting.

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of each option as of its grant date. These inputs are subjective and generally require significant analysis and judgment to develop. The following table sets forth the significant assumptions used in the Black-Scholes model and the calculation of stock-based compensation cost during 2008, 2009 and 2010:

	Year Ended December 31,		
	2008	2009	2010
Future dividends	—	—	—
Risk-free interest rate	2.8% to 4.0%	1.6% to 3.2%	1.6% to 2.6%
Expected volatility	50%	50%	50%
Expected life	6.25 years	6.25 years	6.25 years
Forfeitures	3.75% annually	4.25% annually	4.25% annually

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

As a newly public company, it is not practicable for the Company to estimate the expected volatility of the share prices based on its limited public trading history. Therefore, the Company's management estimated its expected volatility by reviewing the historical volatility of the common stock of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected results. Judgment was used in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies.

All employees were aggregated into one pool for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant.

The plan has not been in existence a sufficient period for the Company's historical experience to be used when estimating expected life. Furthermore, data from other companies is not readily available. Therefore, the expected life of each stock option was calculated using a simplified method based on the average of each option's vesting term and original contractual term.

An estimated forfeiture rate derived from the Company's historical data and its estimates of the likely future actions of option holders has been applied when recognizing the stock-based compensation cost of the options.

The following table sets forth a summary of option activity under the plans for the years ended December 31, 2008, 2009 and 2010:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2008	6,824,955	$ 1.97	8.5	$ 16,836
Granted	1,736,560	10.52		
Exercised — vested	(14,700)	1.21		
Exercised — non-vested	(33,516)	3.96		
Cancelled	(44,100)	1.48		
Forfeited	(309,680)	2.32		
Outstanding at December 31, 2008	8,159,519	$ 3.77	7.9	$ 85,342
Granted	2,757,720	13.37		
Exercised — vested	(116,620)	1.80		
Exercised — non-vested	(4,900)	0.80		
Cancelled	(136,220)	1.33		
Forfeited	(457,405)	9.50		
Outstanding at December 31, 2009	10,202,094	$ 6.16	7.5	$ 86,074
Granted	6,763,529	14.06		
Exercised — vested	(550,695)	2.28		
Cancelled	(107,904)	10.93		
Forfeited	(557,620)	11.76		
Outstanding at December 31, 2010	15,749,404	$ 9.45	7.5	$ 107,120
Outstanding and vested at December 31, 2010	6,440,139	$ 4.08	5.7	$ 78,350

In February 2010, the Company's board of directors granted options to purchase 5,197,257 shares to executive officers, employees and non-employee directors. Subsequently, the Company determined that these options have an exercise price equal to $14.71 per share (the fair value of the Company's common stock on February 3, 2010, as determined by the board of directors). Prior to the initial public offering, in April and

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

May 2010, the Company granted options to purchase 1,119,160 shares and 156,798 shares, respectively, to various employees. These options have an exercise price of $12.00, which was the price at which shares of the Company's common stock were sold to the public in the initial public offering.

The weighted-average grant date fair value of options granted in the years ended December 31, 2008, 2009 and 2010 was $6.20, $6.77 and $7.19 per share, respectively. The total intrinsic value of the options exercised in the years ended December 31, 2008, 2009 and 2010 was $0.2 million, $1.4 million, and $6.6 million, respectively. The total fair value of options vested in the years ended December 31, 2008 and, 2009 and 2010 was $2.8 million, $5.4 million and 8.0 million, respectively.

Total share-based compensation cost recognized for the years ended December 31, 2008, 2009 and 2010 was $3.6 million, $6.9 million and $16.5 million, respectively, with related income tax benefits of approximately $1.4 million, $2.8 million and $6.6 million, respectively. As of December 31, 2010 there was $52.0 million of total, unrecognized share-based compensation cost related to stock options granted under the plans, which the Company expects to recognize over a weighted-average period of 2.8 years.

10. 401(k) Retirement Plan

The Company maintains a 401(k) retirement plan that is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. In general, all employees are eligible to participate. The 401(k) plan includes a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by up to the statutorily prescribed limit, equal to $16,500 in 2010, and have the amount of the reduction contributed to the 401(k) plan. The Company currently matches employee contributions up to 50% of the first 3% of base compensation that a participant contributes to the plan. In 2008, 2009 and 2010, employees who were Directors, Vice President, or higher levels were excluded from the matching contribution feature of the plan. For the years ended December 31, 2008, 2009 and 2010, total Company contributions to the plan were $0.2 million, $0.2 million and $0.3 million, respectively.

11. Operating Leases

The Company rents office space and equipment under a series of operating leases, primarily for its Chicago corporate office, shared service centers and India operations. The Company's leases contain various rent holidays and rent escalation clauses and entitlements for tenant improvement allowances. Lease payments are amortized to expense on a straight-line basis over the lease term. As of December 31, 2010, the Chicago corporate office consisted of approximately 50,000 square feet in a multi-story office building under a lease expiring as to certain portions of the space in 2014 and other portions in 2020. In 2010, the Company substantially expanded its Chicago corporate headquarters. As a result of the build-out of additional space, the Company was entitled to approximately $2.5 million of tenant improvement allowance from the landlord. The payments from the landlord are included in Other Non-Current Liabilities in the consolidated balance sheet as of December 31, 2010 and are amortized on a straight-line basis over the duration of the lease. Approximately $0.9 million of the tenant allowance was recorded as a note receivable as the amount would not be available to the Company until 2013. In addition, the Company has a right of first offer to lease an additional 11,100 square feet of space on another floor in the same building.

In August 2010, the Company also leased approximately 44,500 square feet of office space in another building in Chicago for a period of 11 years. The total rental commitment under the lease is approximately $8.0 million.

Total rent expense was $1.0 million, $1.5 million and $2.0 million for the years ended December 31, 2008, 2009 and 2010, respectively.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

At December 31, 2010, the aggregate minimum lease commitments under all noncancelable operating leases are as follows (in thousands):

2011	$ 3,196
2012	2,593
2013	2,470
2014	2,466
Thereafter	12,751
Total	$23,476

12. Income Taxes

For the years ended December 31, 2008, 2009 and 2010, the Company's current and deferred income tax expense attributable to income from continuing operations are as follows (in thousands):

	Current	Deferred	Total
Year ended December 31, 2008:			
U.S. federal	$ 66	$ —	$ 66
State and local	2,177	—	2,177
Foreign	21	—	21
	$ 2,264	$ —	$2,264
Year ended December 31, 2009			
U.S. federal	$ 4,377	$ (3,206)	$1,171
State and local	2,095	(339)	1,756
Foreign	137	(98)	39
	$ 6,609	$ (3,643)	$2,966
Year ended December 31, 2010			
U.S. federal	$ 10,454	$ (3,340)	$7,114
State and local	2,881	(283)	2,598
Foreign	157	(140)	17
	$ 13,492	$ (3,763)	$9,729

Reconciliation of the difference between the actual tax rate and the U.S. federal income tax rate is as follows:

	2008	2009	2010
Federal statutory tax rate	34%	35%	35%
Increase (reduction) in income tax rate resulting from:			
State and local income taxes, net of federal benefits	42	6	9
Change in the valuation allowance	(15)	(23)	—
India tax holiday	(5)	(2)	(2)
Meals and entertainment and other permanent differences	3	1	1
Alternative minimum tax	(4)	—	(1)
Anti-dilution warrants issued to customers	9	—	—
Other, net	1	—	2
Actual tax rate	65%	17%	44%

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table sets forth the Company's net deferred tax assets (liabilities) as of December 31, 2009 and 2010 (in thousands):

	2009	2010
Deferred tax assets:		
Alternative minimum tax credit carryover	$ —	$ 113
Net operating loss carryforwards	143	152
Employee stock compensation	4,186	10,111
Stock warrants	4,159	268
Bad debt	—	579
Research and development credit	—	101
Minimum alternative tax	—	238
Other	74	—
Total gross deferred tax assets	8,562	11,562
Less valuation allowance	(139)	(157)
Net deferred tax assets	8,423	11,405
Deferred tax liabilities:		
Deferred revenue	(2,056)	(2,388)
Fixed assets and intangibles	(2,816)	(3,628)
Total deferred tax liabilities	(4,872)	(6,016)
Net deferred tax asset	$ 3,551	$ 5,389

As of December 31, 2008, the Company had recorded a valuation allowance for the full amount of its net deferred tax assets because its cumulative net tax loss during the three-year period ended December 31, 2008 resulted in management concluding that it was not more likely than not that the net deferred tax assets will be realized.

During the year ended December 31, 2009 the Company reduced the valuation allowance recorded against the Company's net deferred tax assets due to a change in the estimate of the future realization of the net deferred tax assets. The reduction resulted in a tax benefit of $3.5 million.

At December 31, 2010, the Company has cumulative net operating loss carryforwards of approximately $0.2 million which are available to offset future state taxable income in future periods through 2027.

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiary that arose in 2009 and 2010 because the Company considers these earnings to be indefinitely reinvested outside of the United States. As of December 31, 2008, 2009 and 2010, the undistributed earnings of this subsidiary were $0.5 million, $0.7 million and $1.3 million, respectively.

The 2008, 2009 and 2010 current tax provision includes $0.02 million $0.1 million and $0.2 million, respectively, for income taxes arising from the pre-tax income of the Company's India subsidiaries. The tax provisions are net of the impact of a tax holiday in India. The Company's benefits from this tax holiday were approximately $0.2 million, $0.3 million, and $0.4 million for the years ended December 31, 2008, 2009 and 2010, respectively.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

The Company's uncertain tax positions as of December 31, 2010, totaled $0.6 million. The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

Unrecognized tax benefits as of December 31, 2008	$ 248
Increases in positions taken in a current period	196
Decreases in positions taken in prior period	(139)
Unrecognized tax benefits as of December 31, 2009	$ 305
Increases in positions taken in a current period	325
Increases (decreases) in positions taken in prior period	—
Unrecognized tax benefits as of December 31, 2010	$ 630

As of December 31, 2010, approximately $0.6 million of the total gross unrecognized tax benefits represented the amount that, if recognized, would result in a reduction of the effective income tax rate in future periods.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. U.S. federal income tax returns for 2008 and 2009 are currently open for examination. State jurisdictions vary for open tax years. The statute of limitations for most states ranges from 3 to 6 years.

13. Legal Proceedings

From time to time, the Company has been and may become involved in legal or regulatory proceedings arising in the ordinary course of business. The Company is not presently a party to any material litigation or regulatory proceeding and the Company's management is not aware of any pending or threatened litigation or regulatory proceeding that could have a material adverse effect on the Company's business, operating results, financial condition or cash flows.

14. Earnings (Loss) Per Common Share

Earnings per share ("EPS") is calculated in accordance with ASC 260, *Earnings Per Share*. The guidance in ASC 260 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

Under the two-class method, earnings are allocated between common stock and participating securities. The accounting guidance also states that the presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. Prior to the initial public offering, the Company's Series B and Series C common stock had equal participation rights and therefore the Company has presented earnings per common share for Series B and Series C common stock as one class.

Net income per common share and weighted-average shares used in calculating net income per common share have been restated for all historical periods to reflect a 3.92-for-one stock split effective on May 3, 2010.

The Company's Series A and Series D convertible preferred stock automatically converted to shares of common stock in connection with the Company's initial public offering. Additionally, the unvested share-based payment awards that contained non-forfeitable rights to dividends were immaterial as of December 31, 2010. Accordingly, for periods ended after the initial public offering, the two-class computation method is no longer applicable.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31, 2008	2009	2010
Net income as reported	$ 1,243	$ 14,590	$ 12,618
Less: Distributed earnings available to participating securities	8,148	8,174	—
Less: Undistributed earnings available to participating securities	—	—	—
Numerator for basic earnings (loss) per share - Undistributed and distributed earnings available to common shareholders	(6,905)	6,416	12,618
Add: Undistributed earnings allocated to participating securities	—	—	—
Less: Undistributed earnings reallocated to participating securities	—	—	—
Numerator for diluted earnings (loss) per share - Undistributed and distributed earnings available to common shareholders	$ (6,905)	$ 6,416	12,618
Denominator for basic earnings (loss) per share - Weighted-average common shares	36,122,470	36,725,194	70,732,791
Effect of dilutive securities	—	7,229,973	23,473,886
Denominator for diluted earnings (loss) per share - Weighted-average common shares adjusted for dilutive securities	36,122,470	43,955,167	94,206,677
Earnings (loss) per share:			
Basic net income (loss) per share	$ (0.19)	$ 0.17	$ 0.18
Diluted net income (loss) per share	(0.19)	0.15	0.13

Because of their anti-dilutive effect, 55,369,976, 47,338,312 and 9,176,289 common share equivalents, comprised of convertible preferred shares, stock options and warrants, have been excluded from the diluted earnings (loss) per share calculation for the years ended December 31, 2008, 2009 and 2010 respectively.

15. Revolving Credit Facility and Other Commitments

On September 30, 2009, the Company entered into a $15 million line of credit with the Bank of Montreal, which may be used for working capital and general corporate purposes. Any amounts outstanding under the line of credit accrue interest at LIBOR plus 4% and are secured by substantially all of the Company's assets. Advances under the line of credit are limited to a borrowing base and a cash deposit account which will be established at the time borrowings occur. The line of credit has an initial term of two years and is renewable annually thereafter. As of December 31, 2010, the Company had no amounts outstanding under this line of credit. The line of credit contains restrictive covenants which limit the Company's ability to, among other things, enter into other borrowing arrangements and pay future dividends. The Company recorded $0.15 million of interest expense in 2009 as a result of the origination fee paid in conjunction with closing this facility.

In August 2010, the Company executed a new office lease for approximately 44,500 square feet in a multi-story building for a period of 11 years. As a result, the Company's lease payments are expected to increase, on average, by approximately $0.8 million per year. Pursuant to the terms of the lease agreement, the Company issued a stand-by letter of credit in the amount of $1.8 million, increasing total amount of stand-by letters of credit outstanding to $1.9 million. This reduced the availability under the Bank of Montreal's line of credit to $13.1 million.

From time to time the Company makes commitments regarding its performance under certain portions of its managed service contracts. In the event that the Company does not meet any of these performance requirements, it may incur expenses to remedy the performance issue. The Company reviews its compliance with its contractual performance commitments on a quarterly basis. As of December 31, 2010, the Company met all of its performance commitments and, as a result, has not recorded any liabilities for potential obligations.

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Accretive Health, Inc.

Notes to Consolidated Financial Statements — (Continued)

16. Quarterly Financial Information (Unaudited)

Unaudited summarized financial data by quarter for the years ended December 31, 2009 and 2010 is as follows:

	Quarter Ended							
	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	(In thousands, except share and per share data)							
Net services revenue	$112,467	$125,682	$134,512	$137,531	$125,937	$151,905	$158,424	$170,029
Operating margin	19,764	22,718	28,627	28,372	23,648	33,891	32,152	38,327
Income (loss) from operations	(228)	2,919	6,984	7,889	1,172	7,434	4,481	9,232
Net income (loss)	$ (638)	$ 5,851	$ 4,270	$ 5,106	$ 314	$ 3,919	$ 2,858	$ 5,528
Net income applicable to common shareholders(1)	$ (638)	$ 2,647	$ (3,774)	$ 2,318	$ 314	$ 3,919	$ 2,858	$ 5,528
Net income per common share								
Basic	$ (0.02)	$ 0.07	$ (0.11)	$ 0.06	$ 0.00	$ 0.06	$ 0.03	$ 0.06
Diluted	(0.02)	0.06	(0.11)	0.05	0.00	0.04	0.03	0.06

(1) Prior to our initial public offering in May 2010, we allocated net income between common stock and other participating securities, primarily preferred stock shares. Therefore, at each reporting period, income related to other participating securities was excluded from net income available for common shareholders.

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
4.1	Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.1*	Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2*	Form of Acknowledgement of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.3*	Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.4*	Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.5	Third Amended and Restated Stockholders' Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed on March 9, 2011)
10.6	Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.7	Lease Agreement, dated as of May 4, 2005, between the Registrant and Zeller Management Corporation, as amended by First Lease Amendment, dated as of January 30, 2007, and Second Lease Amendment, dated as of November 26, 2008 (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.8+	Amended and Restated Master Services Agreement, dated as of December 13, 2007, between the Registrant and Ascension Health (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.17*	Employment Agreement, dated as of January 2004, between the Registrant and Mary A. Tolan, as amended (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.18*	Employment Agreement, dated as of June 17, 2005, between the Registrant and John T. Staton, as amended (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.19*	Offer Letter, dated December 9, 2003, between the Registrant and Gregory N. Kazarian, as amended (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.20*	Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer (incorporated by reference to Exhibit 10.20 to Amendment No. 1 to the Registration Statement on Form S-1 filed on November 19, 2009)
10.21+	Credit Agreement, dated as of September 30, 2009, between the Registrant and Bank of Montreal (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.22+	Security Agreement, dated as of September 30, 2009, among the Registrant, Bank of Montreal and specified subsidiaries of the Registrant (incorporated by reference to Exhibit 10.22 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.23*	2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)

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Exhibit Number	Description
10.24*	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.25*	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

\+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.